

## The BBC as market shaper and creator

Mariana Mazzucato, Cian O'Donovan

At the heart of the government's White Paper on the future of the BBC is an implicit accusation that the broadcaster is 'crowding out' the market through the scale and quality of its services. The White Paper seeks to build a new charter that challenges (and potentially limits) the scope of public service broadcasters, allowing greater room for private sector players. The government's primary strategy in this regard is its 'distinctiveness' agenda which seeks to evaluate content and content creation activities. This agenda represents a substantial and ongoing potential threat to the BBC and other public service broadcasters, such as Channel 4. In this piece we focus on the critique that the BBC is 'crowding out' private broadcasters. Rather than beginning with a market failure framework, which sees public organizations — such as the BBC — as only relevant in their capacity to fix market failures (such as public goods that are not invested in by the private sector), we view the BBC through a market creation and market shaping framework. We argue that the criteria for evaluating and assessing public organizations that stem from such a framework are very different from those that stem from a market failure one.

The BBC is accused of 'stealing' audience from private broadcasters, diminishing potential income from advertising (or subscription) and, consequently, private investments. If the BBC is to be blamed for 'crowding out' private broadcasters, it is necessary to prove that the private broadcasters would engage in the part of the broadcasting landscape that the BBC has dared to occupy. Recent research (1) shows this perspective to be flawed. In short, there is a finite pool of advertising

pounds available within the UK and were the BBC not to exist, this limited pool would not and could not increase to fill the void (2).

Furthermore, this defence does not account for the fact that businesses are often risk-averse and unwilling (or unable) to transform existing landscapes, or indeed create new ones. For example, in 2012, BBC TV invested 56 pence of every pound of revenue in first-run UK content. The equivalent figures were 44 pence for the commercial public service broadcasters (based on total PSB revenues) and a meagre 7 pence for the rest of the commercial sector. Yet if the BBC is to robustly defend itself from the charge of crowding out, it needs not only strong counterfactual evidence such as the example above, but also a framework to more accurately assess its contribution to industry and society within the UK and abroad.

The 'crowding out' argument is based on a framework which sees public services in general, and the BBC in particular, as a means of last resort. Their role is not to compete (in the production of higher quality goods and services) but rather to limit their activity to addressing market failures. Market failures arise if there are positive externalities such as public goods, or negative externalities such as pollution. But the use of market failure theory here is misplaced as it does not capture the BBC's leadership role in the UK's incredibly vibrant culture industry — producing high quality affordable services, with a strong notion of public value that goes beyond a notion of public good. The assumption is that there is an existing market, and if the BBC takes a larger chunk of it, or one not tackling a particular public good problem, there is less left for the private sector, and this leads to criticisms that active public organizations like the BBC not only crowd out but also stifle innovation. The kind of public value that the BBC has produced cannot be captured by the narrow economic definition of the *public good*, which assumes an existing market which is 'fixed' by the public sector due to under-investments by the private sector. Yes, the private sector

tends to under-invest in non commercial areas, but this does not mean that the public sector cannot go transform areas that are normally considered to be commercial (e.g. soap operas and talk shows). Precisely in order to reach a wider audience, and have social impact, a public broadcaster can and should reach out with transformational messages through traditional channels. Other wise the risk is that it remains in a small elite corner of the market, as is often the case in other countries. In other words, public value is a more dynamic concept than public good, focussed on the process by which value is generated in social and collective ways. As Barry Bozeman writes: *"Public values are those providing normative consensus about (a) the rights, benefits, and prerogatives to which citizens should (and should not) be entitled; (b) the obligations of citizens to society, the state, and one another; (c) and the principles on which governments and policies should be based"* (4)

Key here is understanding how, as emphasized in Mazzucato's book *The Entrepreneurial State* (5), the public sector not only 'de-risks' the private sector by sharing its risk, it often 'leads the way'— setting the direction of change, and courageously taking on risk that the private sector fears. Thus rather than analysing public sector investment via the need to correct 'market failures', it is necessary to build a theory of how the public sector shapes and creates markets—as it has done in the history of the IT revolution, but also that of biotechnology, nanotechnology, and in the emerging landscape of green technology. Indeed, the BBC is a perfect example of an organization that by remaining ahead of the game, investing in its own competencies and capabilities, has been able to attract top talent, and steer, shape and create new market landscapes and opportunities for both public and private actors.

So how can we assess how the BBC's ability to de-risk the private sector, as well as to create new market landscapes? Four steps are required, based on a new paper by Mazzucato (6)

**(1) SETTING DIRECTIONS.** First we need to understand how the BBC can be assessed in terms of setting the direction of change and innovation in the broadcasting industry; that is, shaping and creating markets rather than just fixing them. We call this **directionality**, and it starts with understanding the public policy underpinning the BBC, namely its charter and the underlying interests and politics which influence its creation and its continued activities. The BBC's charter has the ability to enhance or limit the scope of the strategies, activities and content of our public broadcasters.

**(2) BUILDING A LEARNING ORGANISATION.** How should the BBC be structured as an **organisation**, so it accommodates risk taking and the explorative capacity and capabilities needed to manage contemporary challenges in a rapidly changing media landscape? This is about assessing which capabilities and structures are necessary to increase the chances that the BBC will be effective at learning and growing symbiotic partnerships with the private sector, as well as at implementing its mission.

**(3) PORTFOLIOS.** Some failure is an integral part of the innovation process. The BBC, backed by its decades-long Reithian mission to inform, educate and entertain, is well-primed for longer-term development cycles. From the BBC Micro project (which taught a generation of school children to code) to Stagebox (designed to link up production teams over the internet) via iPlayer and Ingex recording hardware, BBC innovation has demonstrated an ability to not only contribute to its own bottom line, but to the skills and capabilities of the industry and society. But innovation requires risk taking and this means occasional failure. The White Paper ignores this

by downplaying the role of communications technologies and innovation. Innovation, promotion and delivery of 'emerging communications technologies and services' are one of a set of core 'public purposes' in the current charter, but have been removed from the new White Paper. Rather than obsessing about failures and the effect on the bottom line, often evaluated through narrowly defined cost benefit analysis which fail to account for much of the upside of innovation, more attention is needed on how to structure the portfolio of investments across the risk landscape. Such a structure would facilitate learning from failures, and enable greater capture of value from the upside so that downside risks can be covered, and the next round of investments better secured.

**(4) NEW METRICS.** It is important to use proper metrics, not ideology, to evaluate the BBC. Damian Tambini, from LSE Media Department, is clear that distinctiveness is not going to offer a criterion of public service that is an improvement (7). The challenge and opportunity this presents is to consider what type of metrics might be used to describe this landscape and the BBC's activities within it, not in terms of 'fixing' market failures, but in terms of shaping and creating markets. This requires finding a way to capture the 'social value' created that goes beyond the narrow economics concept of a 'public good', which would see the BBC focusing only on programmes that tend to attract those who already have access to most of society's 'cultural capital'. Here lies an opportunity for the BBC and its defenders to transform static metrics of cost benefit analysis into dynamic ones which can illustrate the quality of the BBC's content, innovation (including spillovers) and contribution to its audience and society — regardless of whether the programme in question is a soap opera, a children's programme, or a documentary on climate change.

Indeed, the White Paper tasks the BBC board with "encouraging risk-taking and supporting creative ambition amongst the strong creative talent at the BBC" (p. 37). The starting point for evaluating the BBC's content and activities is the regulatory structure, and here the government proposes a fundamental shift. The BBC Trust is to be dissolved with regulatory functions to be taken over by Ofcom, the UK's communications competition authority which was originally set up to promote commercial competition. It is not clear if a regulatory body established for adjudicating commercial complaints, has the metrics or organisational means by which to adequately evaluate the BBC's diverse range of activities. The danger according to Des Freedman, Professor at Media and Communications at Goldsmiths, is "that Ofcom may now be asked to preside over endless complaints from the BBC's commercial rivals that it is not sufficiently "distinctive" – especially when its content or services interfere with the profits of its rivals". (8)

If we are to take seriously the task of evaluating the BBC's total market creation contribution, there is no single metric that can distinguish the public value of the BBC's *Happy Valley* from ITV's *Broadchurch*. This must account for broadcast metrics and measures of innovation (format and technology), as well as the capabilities, capacity for learning and the network of links between the BBC and the hundreds of small and large private firms it works with throughout the broadcast and production sectors. Indeed, if the BBC is allowed to continue challenging the status quo, pushing market frontiers and attentive to providing a universal service to all British citizens, it can create a more dynamic and competitive environment for all. In sum, there is a need to build a more symbiotic landscape, with less fear of crowding out and more courage to shape and build new markets, which ultimately benefit citizens as well as businesses able to absorb the spillovers. For this to happen, we need to reinvigorate the notion of Public Value, that goes beyond a narrow concept of the Public Good which is currently serving to limit the role of the public sector in

narrow spaces, that prevent exactly the types of investments the BBC has historically made in order to become a leader in public broadcasting. The BBC, as a UK and global leader of content and innovation, is ideally located to foster such dynamism.

*An earlier version of this article was first published on the LSE Media Policy Project Blog. <http://blogs.lse.ac.uk/mediapolicyproject/2015/10/14/the-future-of-the-bbc-the-bbc-as-market-shaper-and-creator/>*

---

[1] <http://blogs.lse.ac.uk/mediapolicyproject/2015/09/16/bbc-tv-and-its-impact-on-investment-in-uk-content-enders-analysis/>

[2] <http://blogs.lse.ac.uk/mediapolicyproject/2015/09/30/why-a-smaller-bbc-will-be-bad-for-almost-everyone/>

[3] [http://reutersinstitute.politics.ox.ac.uk/sites/default/files/What%20if%20there%20were%20no%20BBC%20TV\\_0.pdf](http://reutersinstitute.politics.ox.ac.uk/sites/default/files/What%20if%20there%20were%20no%20BBC%20TV_0.pdf)

[4] Bozeman, B. (2007). *Public values and public interest: Counterbalancing economic individualism*. Georgetown University Press. (quote from page 13)

[5] Mazzucato, M. (2013), *The Entrepreneurial State: debunking public vs. private sector myths*, Anthem Press: London, UK, ISBN 9780857282521, <http://marianamazzucato.com/the-entrepreneurial-state/>

[6] Mazzucato M. (2016) "From Market Fixing to Market-Creating: A new framework for innovation policy", Special Issue of *Industry and Innovation*: "Innovation Policy – can it make a difference?" Vol. 23, Issue 2.

[7] <http://blogs.lse.ac.uk/mediapolicyproject/2016/05/13/is-it-possible-to-regulate-broadcasting-for-distinctiveness/>

[8] <https://opendemocracy.net/ourbeeb/des-freedman/decoding-BBC-white-paper>